

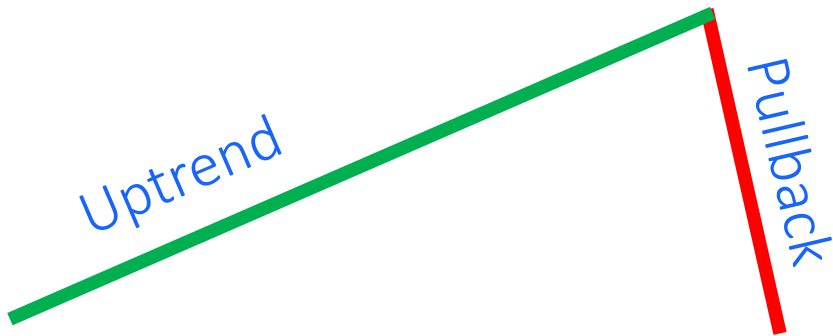
Zero-In On Price Action

Pullback Lacks Conviction

We see strong conviction and energy during a trend-leg that extends beyond the Keltner Channel. We hope that's absent during the pullback.

There's no hard-and-fast definition for price conviction. But here are a few things I look for in the price action. These examples are all shown from the viewpoint of an uptrend, followed by a downward price pullback. The mirror concepts apply during a downtrend

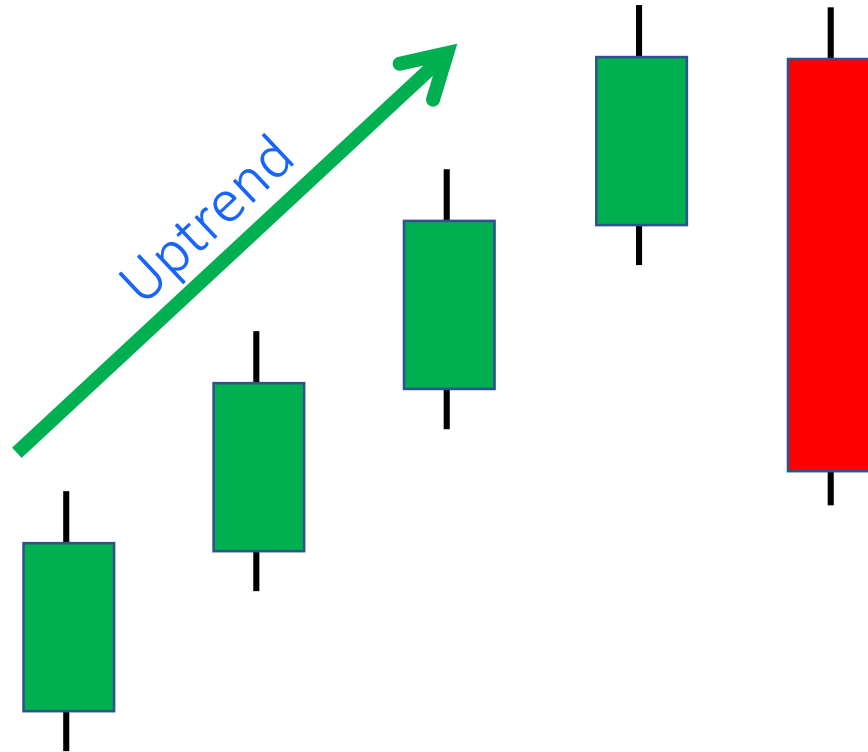
1 Angle / slope



I get concerned if the angle or slope of the pullback is severe, like the example on the left.

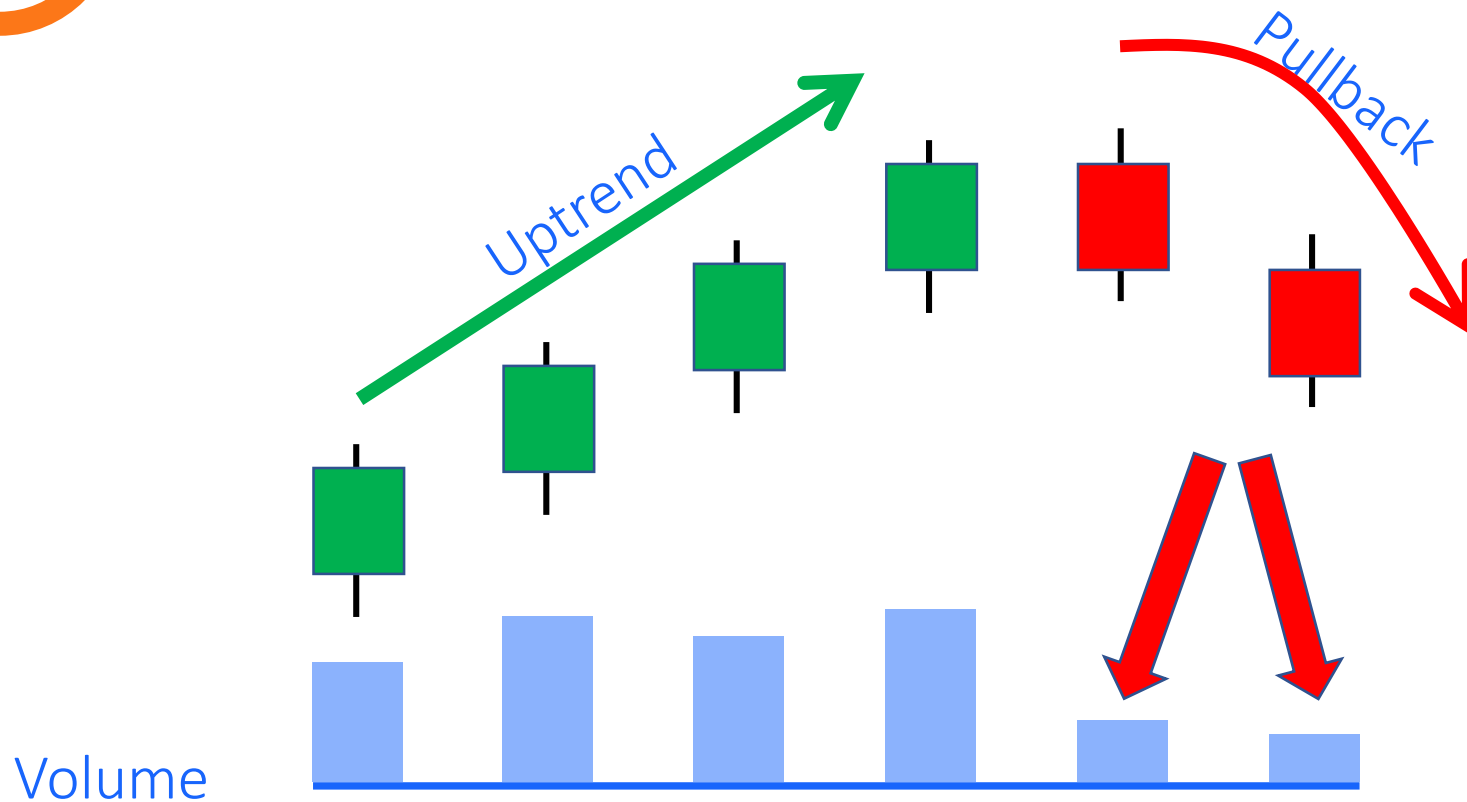
I prefer to see a more orderly pullback. It might even be a sideways movement. See the example on the right.

② Equal or smaller Bar range



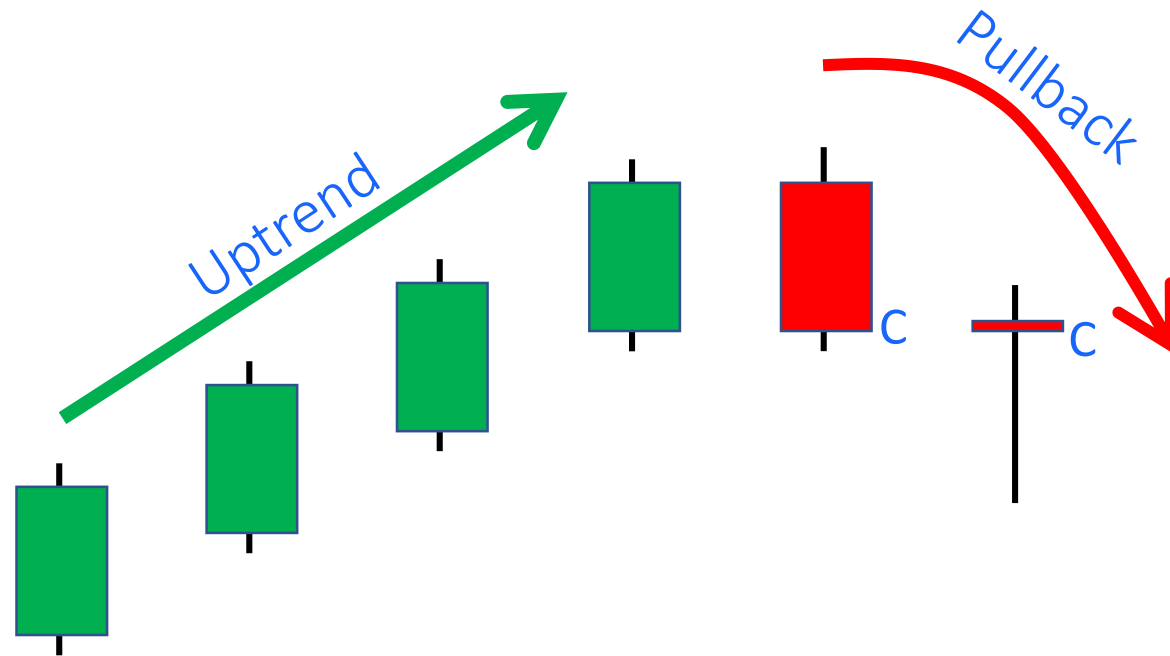
In general, I like the pullback bars to have a range that's no greater than the bars of the trend. What you don't want to see is a long pullback bar like the last bar above. This shows too much against-trend momentum.

③ Reduced volume



I prefer to see a drop-off in trading volume during the pullback period, as shown in the last two bars. However, I put less importance on volume than I used to.

4 Position of Close



Closes in the direction of the pullback, in this case downward, show a pullback that's firmly intact for the moment. See the next-to-last bar above.

Closes in the direction of the primary trend, particularly with longer shadows, indicates the type of reluctance we're looking for. See the last bar above.



Remember, trading is messy.

None of these observations independently may have much meaning. It's the general character of all the bars taken together that matters.

Use your discretion.